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UNCLAS KINGSTON 000425

SIPDIS

STATE FOR WHA/CAR/ (WBENT), WHA/EPSC (JSLATTERY)

SANTO DOMINGO FOR FCS AND FAS

TREASURY FOR L LAMONICA

E.O. 12958: NA

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SUBJECT: JAMAICA'S TRADE DEFICIT DECLINED FROM JANUARY TO OCTOBER 2004

1. In mid-February 2005, the GOJ released an official statement of the trade deficit numbers for October 2004. Such data is typically released four to five months after the reporting period.

2. Despite the economic impact of Hurricane Ivan in September 2004, Jamaica's merchandise trade deficit improved by USD 177 million to USD 1.9 billion at the end of October 2004. While merchandise imports declined moderately during the period, the improvement was largely driven by robust growth in merchandise exports. Export earnings for the first ten months of 2004 increased by 17 percent to USD 1.2 billion, while imports fell by a marginal 0.2 percent to USD 3.1 billion.

3. During the review period, machinery and transport equipment, which declined by 6.1 percent, remained the major imported commodity group, accounting for USD 692.4 million, almost 24 percent of total imports. Mineral fuels worth USD 689.8 million, 22.4 percent of total imports, accounted for the next largest portion of imports. Other major categories were manufactured goods (USD 438.5 million) and food (USD 427.1 million).

4. The moderate decline in imports was largely due to the lag effect of the steep depreciation, which took place in 2003. The exchange rate correction made imported goods more expensive, thereby lowering demand for some products. There has also been a steady decline in the import of telephone and telephone related equipment, which had soared during the set-up and expansion phase of mobile companies. Hurricane Ivan also affected imports, as major ports of entry were out of operation for over two weeks in some instances. Fuel imports have also declined, due to a significant reduction in crude oil imports.

5. Despite an attempt in the 1980s to diversify the export base, non-traditional exports continue to lag behind traditional exports. From January to October, non-traditional exports accounted for only 21.2 percent of total exports, despite gaining a competitive edge from the 2003 depreciation. Traditional exports of USD 896.2 million accounted for the other 78.8 percent of exports. Traditional exports were driven by a combination of buoyant bauxite/alumina production and increased world commodity prices, reflecting increased demand from China, in particular. Sugar, which has benefited from the appreciation in the euro, also contributed handsomely to the robust performance. Chemicals and raw materials were the best performing non-traditional exports. Textiles, which soared to over USD 150 million prior to NAFTA, has fallen to USD 8.3 million, suggesting the sector has succumbed to competitive pressures.

6. Comment: Jamaica's trade deficit should continue to improve for the remainder of 2004 and the first half of 2005. However, the improvement could subside thereafter, due to a number of factors. Imports are expected to rise due to increased refined oil imports, which compensate for lost capacity at the fire-damaged local refinery. Imports of capital goods are also expected to climb in order to satisfy demand in the bauxite and tourism industries following announcements of record foreign investment in both sectors. The recent strengthening of the Jamaican dollar could also make imports of consumer goods more attractive in upcoming months. However, the currency appreciation will erode the competitive gains achieved since 2003, and could well hamper the recovery in exports. Jamaica's trade balance could be boosted by the recovery in export agriculture and increased exports of bauxite and alumina following extensive recent expansion in the industry. The value of sugar exports will also benefit from any strengthening of the euro relative to the US dollar.

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